FARMERS' NEWSLETTER

Aug. 78/L-4

# Livestock

A major turning point in the beef cattle industry seems near. Although January 1, 1979, cattle numbers may be down about 5 percent from the 1978 beginning inventory, the drastic herd liquidation of recent years probably will end within a few months. However, judging from previous cattle cycles, extensive herd rebuilding may not begin for a few years.

The ending of herd liquidation and, later, the beginning of herd rebuilding will bring marked reductions in cattle slaughter and beef output. That, in turn, almost surely means higher prices for both cattle and beef. Most of the gain will go to the farmers and ranchers who raise and sell feeder cattle or calves.

Competition among feedlot operators for a shrinking supply of replacement cattle will boost feeder cattle prices. Cattle feeders will also be bidding against cow-calf producers for heifers. This will leave only moderate profits for cattle feeders.

These conclusions are supported by recent surveys. They show latest USDA estimates of the number of cattle and calves on farms and ranches, the 1978 calf crop, slaughter rates, and the number of cattle on feed.

## Cattle Numbers Shrink Since 1975

The regular midyear survey of cattlemen was made around July 1. Based on that survey, the nation's cattle herd was estimated at 121.6 million head. That's down 8.6 million from a year earlier and off 18.5 million from the peak reached 3 years ago. The 1978 calf crop is estimated at 44.1 million head, down 4 percent from last year and off 13 percent from its 1974 high.

During the 4 drought years 1934-1937, the nation's cattle herd was cut 12 percent. This time it took only 3 years to get the same reduction. With 1978's continued liquidation, the reduction could reach 15 percent over the 4-year period ending this year.

The speedup of cattle slaughter during recent years overloaded retail meat counters. Consumers did buy all the beef that was produced, but at prices that did not provide adequate profits for cattle producers. After accounting for inflation, the farm price of cattle declined during 1975, 1976, and 1977.

As a result, some producers sold their cattle, plowed up pastures, and planted cash crops. Many of them may be reluctant to re-enter the industry.

Cattlemen in some areas were forced to cut their herds because of drought and resulting feed shortages. That was the case, for example, in South Dakota and the Pacific States. This year, drought has been a persistent problem in parts of Texas and the Southeast, but rains in early August helped some.

The Farmers' Newsletter, formerly Commodity Outlook for Farmers, is authorized by Congress and written and published by USDA's Economics, Statistics, and Cooperatives Service. Materials in the newsletter are approved by the World Food and Agricultural Outlook and Situation Board.

## Feedlot Placements Still Increasing

Other USDA reports show that cattle producers are continuing to trim their herds. Feedlot operators in 23 states placed 6.5 million head of cattle and calves on feed during April-June. That was 9 percent more than were put in feedlots a year before and 16 percent more than were placed 2 years earlier.

The figures for heifers alone are even more convincing. There were a record 4 million heifers on feed July 1. That was 20 percent more than in 1977 and 18 percent more than in 1976.

The large sell-off of heifers for feedlot placements probably reflects producers' needs to raise cash to pay farm and family bills. Moreover, since most producers have not yet sold a calf crop at the higher prices, they will be under financial (cash flow) pressure to sell heifers again this fall.

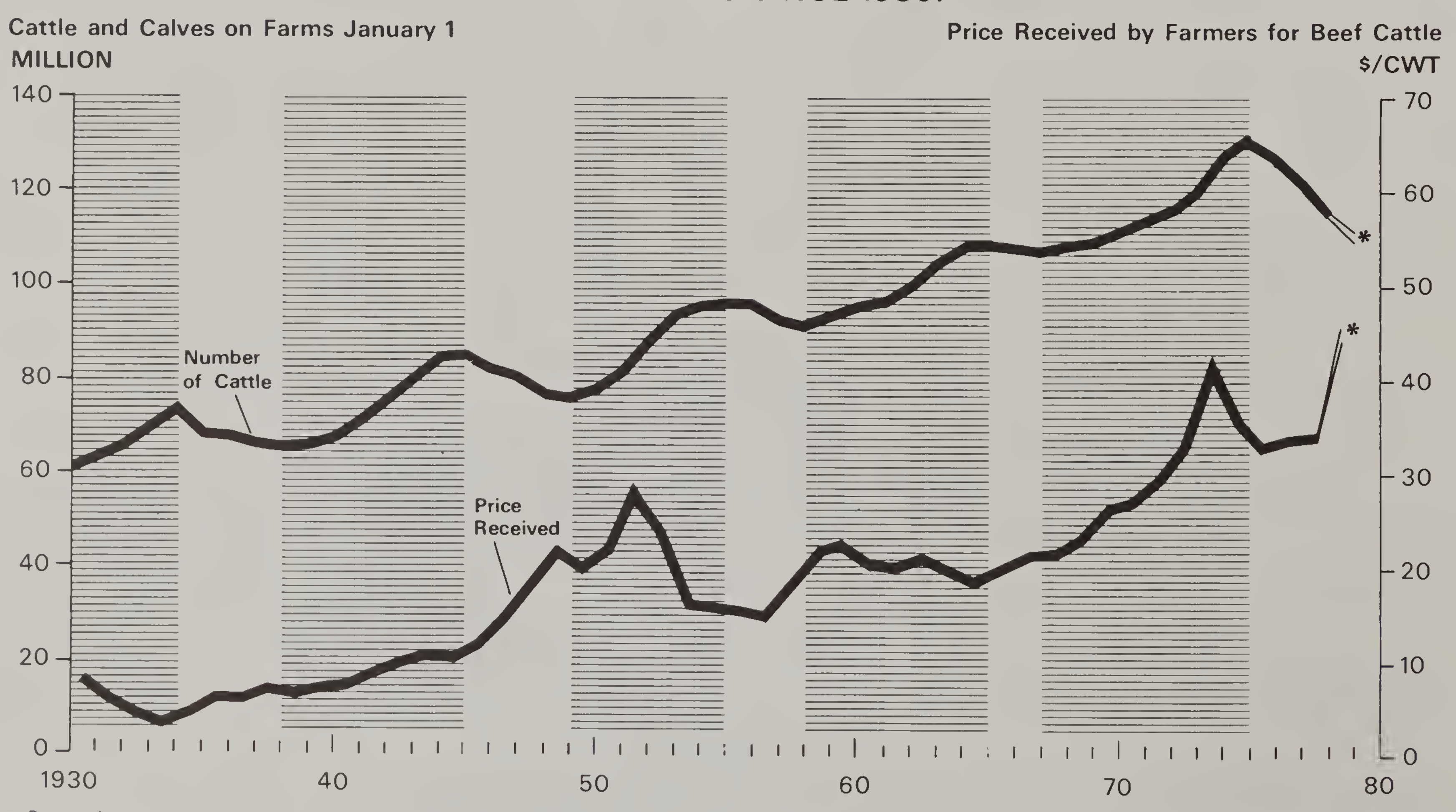
Market supplies of fed cattle for the next few months will be larger than those of a year earlier. There were 10.9 million cattle on feed in 23 major producing states as of July 1. That's 12 percent more than a year earlier.

Feedlot operators reported intentions to market 6.6 million cattle during July-September, up 7 percent. Actual marketings often differ from intentions but, considering the number of cattle in the heavier weight groups, marketings may well be close to intentions. Of course, rates of gain and the timing of cattle feeders' marketing decisions will affect slaughter volume.

## Price Outlook Improved

Cattle prices have improved sharply since last year, particularly prices of feeder cattle and cows. In mid-July, these price series averaged 50 percent and 70 percent higher, respectively,

### CATTLE CYCLES SINCE 1930:




Cattle numbers have been fluctuating cyclically since 1890. The five cycles since 1930 are shown above. The shaded sections are periods of herd building. Prices tended to be highest when cattle numbers were low and increasing. Other important price-making factors were consumer buying power and supplies of competing meats.

than in July last year. Choice steers at Omaha averaged about 35 percent higher. Fed prices began climbing in October and by late May had topped $60.

As often happens, cattle prices went higher than could be supported by existing supply and demand conditions. When retail beef prices were marked up, consumer purchases slowed, buyers for supermarkets backed off, and cattle prices settled back into the mid-$50's.

Prices of Choice steers will probably average in the mid-$50's during the rest of this year with the larger supplies of fed beef and expanding poultry supplies. Some cattle feeders may find themselves in a loss position this fall. Next winter, prices should rise as a result of shrinking supplies of nonfed beef, but how much will depend on consumer willingness to pay higher prices for the beef available.

Despite the uncertainty over consumer behavior in coming months, two price-making factors will be more favorable for cattlemen than they were a year before. Fewer nonfed cattle will be available for slaughter, and consumer buying power will be stronger.

### Less Nonfed Beef Expected

Watch for marketings of nonfed cattle (mostly young stock directly off grass as well as cows) to be smaller. There are two principal reasons. Pastures and ranges are generally much better than they were a year ago, and there is more hay. Also, with higher fed cattle prices, feedlots are bidding much higher for replacement cattle than they were in 1977. Thus, more grass cattle are going into feedlots.

The reduction in nonfed beef output is expected to more than offset any increase in fed beef. So total beef production during the rest of this year probably will be 4 to 5 percent less than during the like period last year.

### Consumer Demand Stronger

Consumers appear able and willing to pay more for meat, particularly beef, than they did a year ago. For one thing, about 4 percent more people have jobs now. In addition, family income is up 10 to 12 percent. What's more, consumer incomes will continue to increase in the year ahead, and there may also be some growth in employment.

### More Competition from Poultry

A restraining influence on beef prices this fall: more poultry in retail counters than a year before. The supply of broilers probably will be up 8 to 12 percent, and 2 to 5 percent more turkey meat may be available.

Some research has indicated that changes in supplies of poultry have little influence on beef prices. But we all know that when chicken is on the dinner plate, it replaces another meat.

### Longer Range Outlook

The turning of the cattle cycle will substantially alter the cattle-beef situation. Since the 1975 peak in cattle numbers, cattlemen have been selling more cattle than the herd produced. Now the herd is 12 percent smaller and has correspondingly less beef-producing capacity. When herd rebuilding begins, cattlemen will sell fewer cattle than they produce.

Judging from previous cattle cycles, you can expect herd expansion to continue for 6 or more years. The first substantial increase in marketings of cattle usually occurs during the third or fourth year of herd increase.

It's not possible to accurately forecast cattle prices for the next 5 years or so. But they'll probably average higher than usual relative to prices of most other farm products if consumers shift back to fed beef as expected.

Aug. 78/L-4

POSTAGE AND FEES PAID
U.S. DEPARTMENT OF
AGRICULTURE
AGR 101
FIRST CLASS

U.S. MAIL

To change your address, return the mailing label from this Newsletter with your new address to ESCS Publications, Room 0054-S, USDA, Washington, D.C. 20250.

This prospect provides encouragement for cattle producers. They stand to gain from the strong bidding by feedlot operators for replacement cattle. But they'll still be very dependent on what cattle feeders can afford to pay.

The table shows our estimates of typical break-even prices for 600-pound feeder steers, depending on prices for Choice steers and costs of corn. For example, if a cattle feeder can sell finished steers at $60 per cwt. and corn costs $2.25 per bushel, the break-even price for feeder steers would be $64. (Our break-even price covers all expenses including interest and labor).

**Break-even Feeder Steer Prices**[1]

| Corn price | Choice steers, $ per cwt. | | | | | |
|---|---|---|---|---|---|---|
| | 45 | 50 | 55 | 60 | 65 | 70 |
| $ per bu. | *Feeder steers, $ per cwt.* | | | | | |
| 1.75 | 42 | 51 | 59 | 68 | 77 | 86 |
| 2.00 | 40 | 49 | 58 | 66 | 75 | 84 |
| 2.25 | 38 | 47 | 56 | 64 | 73 | 82 |
| 2.50 | 36 | 45 | 54 | 63 | 71 | 80 |
| 2.75 | 34 | 43 | 52 | 61 | 69 | 78 |
| 3.00 | 33 | 41 | 50 | 59 | 68 | 76 |
| 3.25 | 31 | 39 | 48 | 57 | 66 | 74 |
| 3.50 | 29 | 38 | 46 | 55 | 64 | 73 |

[1] Feeder steer prices consistent with break-even costs, given corn and fed steer prices. Estimates based on placing 600-pound feeder steer and selling 1,050-pound fed steer. Cost other than corn and feeder steer estimated at $13.50 per cwt. of animal sold.

Strong bidding will tend to push costs of feeder cattle high enough that average profits from cattle feeding will be held to moderate levels. There may even be losses from time to time.

Watch for signs that cattlemen have stopped the sell-off. Early indicators: sharply reduced slaughter of cows and calves, and a decrease in the number of heifers going into feedlots.

INFORMING YOU BY MAIL AND BY PHONE:

* To keep current on the livestock market, write to Agricultural Marketing Service, Room 2615 South Bldg., USDA, Wash., D.C. 20250. Ask for the latest copy of the weekly LIVESTOCK MEAT WOOL Market News. Also, ask about information for your own area.
* Cattle and Calf Losses in Feeder Cattle Production, AER-409, request from ESCS Publications, Room 0054 South Bldg., USDA, Wash., D.C. 20250.
* Hog Slaughter: Be Your Own Forecaster and the Crop Reporting Board story, request from ESCS Information, Rm. 5855 South Bldg., USDA, Wash., D.C. 20250.
* For the latest livestock, crop, and farm economic news, dial away on our toll-free FARMERS' NEWSLINE: 800-424-7964. New reports each weekday after 4 p.m., Wash., D.C., time.